

# **PRESS BRIEFING BY CHIEF OF STAFF JOHN PODESTA, COMMERCE SECRETARY WILLIAM DALEY, AND DEPUTY SECRETARY OF DEFENSE JOHN HAMRE**

**July 1, 1999**

**The White House Briefing Room**

**Secretary Daley | Under Secretary Reinsch**

11:55 A.M. EDT

MR. SIEWERT: Here today to brief and announce changes in our export control policy are Chief of Staff John Podesta, Commerce Secretary William Daley, and --

Q No sound.

MR. SIEWERT: No sound? WHCA? And Deputy Secretary of Defense John Hamre. Mr. Podesta.

MR. PODESTA: Now we have sound? Yes.

Thank you for coming, and I believe that a statement from the President has been passed out. We'll have a fact sheet on this announcement available to you, I think, during or immediately following the briefing.

We'd like to discuss, today, President Clinton's decision to revise U.S. export controls on computers in order to maintain realistic controls for national security, and to support a vital U.S. industry. Since computer export controls were last revised in 1995, we've seen tremendous increases in computer technology and in computer power. Perhaps the most vivid example is that by this fall, a laptop computer that can perform over current control levels of 2,000 millions of theoretical operations per second, or MTOPS, which I will refer to from now on in the briefing, and will cost a few thousand dollars, will be available by mail order or through Internet sales.

The force driving behind these improvements is the ever-growing power of individual microprocessors. Single chips in commercial release today are over 1,200 MTOPS, the current control level. By next year, commercial chips will raise from 2,500 to over 5,000 MTOPS. Commercial chips are shipped in millions throughout worldwide distribution networks. They're essential components of over 21 million personal computers, laptops and basic servers sold in Europe and Asia in 1997 alone. That number is growing now. We've also seen a steady rise in the number of non-U.S. computer makers, not just the personal computers, but of the highly competitive business server market as well. Companies in Europe, Japan, Taiwan and South Korea are expected to capture 22 percent of the global business computer market by the year 2000.

As we try to manage controls over dual-use items, we need to focus our resources on items that are not widely available. We believe that it is almost impossible to effectively control widely available, what I would call commodity-like commercial items. We recognized in 1995 that computer controls would need to be kept up to date. Defense, Commerce, State and Energy have been reviewing the controls under an NSC process to see what adjustments could be made to address the technology advancements consistent with our national security concerns.

I would note that with no changes to current controls, we estimate that the U.S. could lose nearly \$4 billion in sales over the next four years due to increased export license applications. That would weaken our computer industry, it would weaken our economy, and it would do so without any benefit to our national security since these products would be widely available through other sources.

With regard to the specifics, we're making several announcements today at the tier one control level. We're moving several countries from tier two to tier one, Poland, Hungary, the Czech Republic and Brazil. We are raising the control level for chips or individual microprocessors from 1,200 to 1,900 MTOPS. On tier two, we've decided to raise the licensing levels for the tier two countries which present low proliferation risk from 10,000 MTOPS to 20,000 MTOPS immediately. We'll continue to review the technology and likely will raise the tier two level to 32,000 to 36,000 MTOP levels in six months.

On tier three countries, those that present proliferation risks, we've decided to maintain the current structure -- one licensing level for military end users and one level for civilian end users. We'll raise the level at which an individual license is required for civilian end users from 7,000 MTOPS to 12,300 MTOPS. We will raise the current individual license level for military end users from 2,000 MTOPS to 6,500 MTOPS.

The National Security Agencies have judged, and the President and Vice President agree that it is simply not practical to try to control computers below 6,500 MTOPS, such as the IBM Netfinity, the Hewlett-Packard NetServer and the Compaq ProLiant. Likewise, we'll raise the level at which the 10-day pre-export notification requirement is triggered for exports to tier three countries from 2,000 MTOPS to 6,500 MTOPS. The change to the civilian licensing level will take place immediately and the other tier three changes will take place once we have completed the legally required six-month congressional notification period.

I think -- let me mention that we also intend to encourage Congress, and we intend to work with them, to reduce the six-month congressional notification period to one month, and we intend to -- with regard to the specific announcements we're making today -- we'd like to be able to work with Congress to see those numbers be able to move into effect sometime this fall, when the products that we're talking about will begin to hit the market.

Finally, let me say that on a longer-term basis we intend to work with Congress to adopt an approach that does not rely on ad hoc judgments about appropriate levels of control, but rather keys our export controls to recognize the practical impossibility of controlling items so widely available that they amount to, as I said, commodity items, like microprocessors, which are sold in the hundreds of thousands of units per month.

With that, let me turn it over to Secretary Daley, and then Secretary Hamre for their comments.

**SECRETARY DALEY:** Thank you, John. The focus of our export control policy has been, is, and always will be the protection of our national security. And that is the basis for this decision.

Let me say a few words -- as John has stated, this was made after a very careful interagency review that considered a range of options, and took a very in-depth look at the technologies. As you all know, technology in this area has been evolving very rapidly, and is available quite freely.

What was controlled in 1993 as a supercomputer is now less powerful than the most used laptops. If the President had not taken this step, let me show you something. This Play Station,

which will be available at the holiday season this year, would be controlled if these changes were not made.

So our focus has been what we can realistically control. We think it is better to focus our energy and our resources on those critical items which we can control rather than those that are out of the box. The issue with computers is that the high end is moving very rapidly. These changes may not go as far as some in industry wish, but we have committed, as John has stated, to review the levels again in six months to see if they need to be adjusted. We believe that computers operating at above-the-tier-three level for civil exports, 12,300 MTOPS, can be controlled to selected countries.

The President's decision also is intended to strengthen by making sure that our high-performance computer companies continue to be competitive in this global marketplace. More than half their sales, as has been mentioned, are exports, and if they cannot compete in this rapidly growing market overseas, they will be outpaced by their very aggressive competitors. If they begin to lose market shares, earnings will decline, so their ability to sustain their current levels of R&D next generation products would be affected. These would be the very products that our defense and intelligence establishments need to maintain their lead over others. At the same time, we want to control products where we have top-edge technology.

Finally, let me say that these new export controls for high-performance computers are also good for electronic commerce, for faster computers mean faster and better applications. That way, we also help our computer industry maintain their technological preeminence as well as their market share. Thank you. [next]

DEPUTY SECRETARY HAMRE: Good morning. First, let me thank my colleagues in the interagency process, especially the President, for taking very seriously our national security concerns that we had when we addressed this issue. I know we irritated people a good deal. But every one of our concerns was accommodated, and we're satisfied that we can continue to protect the country with these relaxations.

May I say, first, that there is a great deal of confusion that powerful computers mean bad weapons in the hands of opponents. We designed and developed the Stealth fighter. Very very advanced, and it's the biggest machines we had, on what was the equivalent of a 100 MTOP machine. And we're now talking about laptops that can produce at 2,000 MTOPS. So it isn't possible to say a very powerful machine represents a national security risk because it means smaller machines just work longer. So it's finding a practical way that we can control the technology, that -- not let it become a dangerous thing for us. And we're very satisfied that these new guidelines will do that.

There is no way in which we can control supercomputers which now are available in the tens of thousands per month, or hundreds of thousands per month. We are in this new world, and we can live in this world. We also need to do it in a way where it doesn't hurt American companies. Because, frankly, we benefit in the Department of Defense by having the strongest computer industry in the world. We've got to protect that. And that was a very important step in this as well.

So let me reassure people, it is -- this is a decision, our security concerns were heard at every corner. We're very satisfied with it.

We do know that we're going to have to continue to look at this technology on an ongoing basis, and we're committed to doing that. And we're very grateful that so much attention was given to the national security concerns during this review.

Q A couple of questions. What, if anything --

MR. PODESTA: Do you want to play with the Play Station?

Q -- well, never mind. (Laughter.) What, if anything, makes you believe that setting these limits will protect American industry from sales from overseas computer-makers, when anybody can put together, from these widely available components, machines which will perform above the levels which you've set? And secondly, what makes you think that the rest of the world will observe your distinction between military use and civilian use?

DEPUTY SECRETARY HAMRE: First of all, this was, again, striking a balance on where you see practical applications and machines. And we looked out and saw every one of the American companies, and what they were going to be producing over the next six months, twelve months, 18 months.

Our goal was to design a system where we weren't trying to control what became basically a consumer product. And that's what this regulation does. So there isn't a company that's going to be kept back.

Now, if its product isn't as good as a foreign product, it's not going to be because of our regulations that affects -- it's because they may have lost the edge competitively. I don't think that's going to happen. I think they'll do very well.

We still are putting restrictions on very strong machines. There are some applications where power makes a big difference -- nuclear simulations and things of this nature -- and for that, we have to continue to have a regulatory environment that controls very strong products. But that's not a consumer product like a laptop or a desktop.

Q What about the civilian-military distinction? You're making a distinction in these regs.

DEPUTY SECRETARY HAMRE: To us -- yes, the distinction and the regs exist for the tier three countries, and here it is -- we still think it's very important to try to have some observability into how end use of machines is going to proceed. For us, the test is very much: is it possible for bad guys to hide inside benign commercial activity, and we wouldn't be able to see it?

I think we're going to have to look, over the next six months, whether this distinction of military and commercial is sustainable. We don't know, but --

SECRETARY DALEY: For commodity, for commodity -- [next]

DEPUTY SECRETARY HAMRE: For commodity -- process. But for right now, we've asked that we continue to be able to take a look at and observe sales where we think it's going to be going to commercial users -- to military users. We think we have to continue to do that for the time being.

Q It seems, sir, that -- John, that the problems would be precisely there in dual-use technology in tier three companies. What did you do toward strengthening the separation between military and civilian uses of this high-tech stuff?

MR. PODESTA: Again, I think maybe John wants to answer that.

DEPUTY SECRETARY HAMRE: In each instance, we're talking about machines -- and there is a logic to the separation between 6,500 and 12,300, and it's the way in which machines can be configured and the way their maintainable after their sold. And we think that is the -- right now, it's really more over the long-term maintenance of the product that still gives us a window into how it's going to be used. That's why we drew the criteria at those thresholds and why we think we can maintain it. But I've got to tell you, it's increasingly hard to be able to distinguish in what's basically a commodity, a commercial commodity, the difference between a military user and just a regular commercial user. We're going to still try. But my pledge and the promise I had to make to the President and the White House is that we're going to review this on an ongoing basis.

If it isn't a useful distinction, I think we in fairness have to come back and say that it's the best way to look at it in the future. Right now, we asked to do it that way and we accommodated it -- the President accommodated it.

Q This is the third time --

MR. PODESTA: I would just add one point to that. As you know, there is considerable interest on Capitol Hill on this and I think we wanted to engage them in that dialogue as well in terms of trying to understand the commodity nature of these products and to fashion a regime that will work, both in the interests of the economic security and the national security of the United States.

Q Are you suggesting lawmakers do this, John? Are you suggesting that you would welcome input from Congress on --

MR. PODESTA: They have -- as you know, they have created a system in which the tier three changes that we're making will sit over for six months in Congress, at least the rise of the military end users will sit over for six months in Congress, and I assume that they're going to take that opportunity to try to understand the industry, understand the national security implications, understand the questions of whether those kinds of products can be controlled. And I think we will have to work together to kind of fashion the right kind of solution.

As I said in my opening statement, we think that having a six month delay in a product area that is so fast moving is probably unwarranted and we would like to see that moved to a shorter time period.

Q John, this is the third time this administration has raised the levels after hue and cry from the computer industry. The industry is very interested in having some more certainty and in some fashion indexing what our decontrol limits should be to something -- the fastest computer in America, what's widely available. Does this proposal today have anything of that sort in it or are you building something of that sort?

SECRETARY DALEY: I think first of all, as John mentioned, the one month instead of a six month will help do that. We are also, as you could imagine, in constant communication with the industry. That's why we feel very comfortable that the numbers that have been put out today very much meet the needs of the industry through this end-of-year period. But -- and if we could get a more regular basis, as you say, that is our goal; that is what we're working toward.

DEPUTY SECRETARY HAMRE: We in the national security establishment spoke against having an automatic indexing mechanism. We feel that there needs to be some form of human assessment and judgment that's brought to this. We also feel it needs to be done on a fairly regular, more frequent basis than the law freely anticipates. We feel that there needs to be a

regular, every six month, we sit down and take a look at it. I think it's the only fair way to balance the genuine progress that's occurring in this industry, but still having a chance to -- for people to judge, what does this mean and is the national security affected by it.

So it was our request that we not go to some automaticity, some mechanism at this stage.

Q A couple of questions about Cox Committee recommendations. One is that the military civilian distinction would work only if you have decent end user verification processes. My first question is, do you think they're adequate now, or do you think you need to go the way of Cox Committee --

MR. PODESTA: Let me just remind you. We negotiated for 15 years to get some sort of end use agreement. We got that last July. We've had a few before the tragedy in Belgrade with the Chinese Embassy end use visits. We are hopeful and optimistic that we will be able to reinstitute those procedures soon. But it took 15 years to get an agreement, we finally got one and we're trying to develop it even into a better one.

DEPUTY SECRETARY HAMRE: I think this gets to the core of the dilemma that all of us face -- not just us, but also the Hill -- which is the notion of an end use is one thing if you're talking about a product that's produced 10 a month. But how in the world do you have end use certification when you're talking about 100,000 a month, or 1 million a month? That's the tension that we feel in the national security world.

Here, we have to -- if a system is going to work, you have to be able to monitor potential diversion up front and you have to audit potential diversion after the fact. That gets very hard when it's a commodity. And so when you get to a broad commodity -- this is where we came down on the Department of Defense -- is once it becomes a commodity, this kind of power in the machine, it is not a realistic national security exercise to think you can control it at that level.

Now, very strong machines, where we're still only producing one a year, or five a year, that, we definitely want to continue to monitor -- manage.

Q John --

Q That brings the next question, which is that the Cox Committee reports asked for empirical testing of national security-oriented software to see if it can be run through massively parallel processing, or whether you need one big supercomputer. Are you doing anything like that, which suggests focusing on the software, and not the hardware?

DEPUTY SECRETARY HAMRE: You're right, it's applications that are really the difference, here. It's not really how powerful the underlying machine is.

As to the specific recommendations of Cox on tests and so forth, I am not familiar with it; I'll find out and I'll get back to you.

Q Mr. Podesta, do you -- the Wall Street Journal today says that you anticipate rough sledding on the Hill, in light of the letter that you got from Mr. DeLay and others. What do you think the prospects are for this? And how much input did they have into this proposal?

MR. PODESTA: I should have read my Wall Street Journal this morning. So I'm actually not -- I don't know what you're referencing.

I think that our judgment was made on what we thought was in the best interest of the country, and the best interest of the system. We have done -- we've made some calls this morning, I think, to let people know what we're doing. And I've done some of those myself. But I don't think we

had a wide discussion with members of the Hill about what the actual proposal ought to be, although we heard from them in the form of a number of letters that were organized by leadership on the Hill, to send to us, to encourage us to make a move on this question -- that the current rules just wouldn't last beyond this year, and that we had to do something. And we met together, as I said, in an NSC/NEC process. And all the agencies, I think, gave a joint recommendation to the President that we move forward in this, in this regard.

Q But are you optimistic or not, and is there some education, maybe, that has to be done on the Hill on this issue?

MR. PODESTA: Well, I think, you know, we'll obviously be briefing the Hill on it, and we hope that they both accept the recommendations -- accept the rules. Obviously, they have some ability to act on this, given the six-month layover provision that they've written into law, but we think this is a very sensible approach, and we think it will be accepted.

And we also hope that they'll consider shortening that six-month time. As I said, we think that it's somewhat unrealistic in this context. But we're really just beginning our consultations on that matter.

Q John, while we've got you here, I wanted to get your reaction to the CBO projections, that are apparently more conservative than the OMB projections for revenue and spending. And are any of the Republican tax proposals at all palatable to the White House?

MR. PODESTA: Well, I think that the President laid out his budget framework at the beginning of the week. I actually have not seen -- Jake, I don't know, have we gotten the CBO? We heard the rumors of what they were going to be this morning, which is a little bit higher in the early years and a little bit less over ten. But I really -- it's hard for me to react, because I haven't seen them yet.

Q Would you be surprised that they were lower? They're usually higher.

MR. PODESTA: Well, you know, I think they're fairly -- it was my understanding that they were fairly consistent with OMB, and so -- I'm up here just speculating.

MR. SIEWERT: Their original estimate was much higher, and not too --

Q A lot of the sections of the Cox Report that dealt with the computer power issues pointed to the concerns about nuclear simulation, which you raised earlier. The level that you've raised the civilian tier three to, of 12,300, is -- I think, if memory's right -- roughly where supercomputers were a decade ago, when you were designing nuclear weapons. Would it be fair to say that you could use a computer that would not require an export license, now, to a tier three country, to do the kind of nuclear simulation that we were doing ten years ago?

DEPUTY SECRETARY HAMRE: I don't know that I would say that. I'd need to get somebody who's an expert in weapons design to give you that sense. But, first of all, we've got a lot of people out there that are designing nuclear weapons that haven't had supercomputers, okay? So I don't think that's stopping the world from getting nuclear weapons.

There is, I think, a very important issue, which is, if we want people to be able to calculate reliability issues if they do have nuclear weapons, and that does require stronger computers, this would go into a world when we don't have testing. So it isn't automatically a thing where you don't want people to be able to undertake simulation, either.

So it's a very complicated issue. But I'd like to get somebody from the Department of Energy to actually answer that technical question.

Q Secretary Hamre, I understand that in addition to this every-six-month review, you -- I don't know if this was in the final proposal, but the idea was to offer industry even a little more certainty by trying to project where you'll be a year hence. You've done that, just here today, on tier two countries. Would you like to hazard a guess at where we'll be on tier three countries a year from now?

DEPUTY SECRETARY HAMRE: Well, no. (Laughter.) I mean, I can tell you where we see some of the machines going, and they offer very, very startling images. I mean, we're not talking about some processors of 5,000 MTOPS in a single processor. Now, you bolt them together and now you've got really a powerful machine and we have got to -- we haven't sorted that out yet. I can forecast at least what industry is telling us they're going to produce. This is why we have to have human judgment into this and not just have an index and say we're automatically going to do this or we're automatically going to do "y". You're going to need us taking and studying this very carefully, and that's what we pledged we would do.

Q John, legislation is moving through the Senate Banking Committee as you probably know that would do some of the things that you talked about in terms of reviewing things at a commodity level. It would also tighten in some ways end user review and the approval processing. Has the administration looked at that proposal and do you have any feelings on that?

MR. PODESTA: I will have to get back to you on that one. Bill did you testify on this legislation?

DEPUTY SECRETARY HAMRE: Bill testified and I did too.

UNDER SECRETARY REINSCH: I'm Bill Reinsch the Under Secretary of Commerce for Export Administration. Mr. Hamre and I testified on this I guess a week ago Tuesday and indicated that we wanted to work with the Committee to try to produce a bill that addressed all of their concerns as well as some of ours. The administration has supported renewal of this act ever since it expired, which was five years ago. And we, on several occasions, have asked the Congress to renew it so we're very happy that they have decided to move forward.

We indicated that we had some problems with the draft bill that they presented. They've taken those problems on board. We had a lengthy staff meeting with them earlier this week, all agencies represented. The Committee staff agreed that they had made a significant number of technical errors, is the best way to put it, in the draft. I think they're working on a second version for us to review. We've given them some of our problems. I'm hopeful that we can come to a meeting of the minds, but it's too early to say for certain.

Q Can I ask one more. I'm having a little trouble understanding the meaningfulness of this if what was considered too dangerous a level six months ago or a year ago all of a sudden is superseded and it seems like that is going to be happening on an ongoing basis. Why isn't there more of an effort maybe to foster some sort of international controls on these exports if what animates part of this is that we're going to get swamped by the competition?

UNDER SECRETARY REINSCH: Well, there are -- we consult with our allies regularly on this. There are some international controls on this of us and our regime, which is the multilateral regime that relates to both conventional weapons and dual use items. It maintains controls here.



So, we have an ongoing dialogue with people on this. Frankly, some of our allies in this area that are -- our numbers have been pressing us to raise the multilateral levels.

MR. PODESTA: Thank you.

END 12:22 P.M. EDT

**Note:**

In April of 2002 the Bureau of Export Administration (BXA) changed its name to the Bureau of Industry and Security (BIS). For historical purposes we have not changed the references to BXA in the legacy documents found in the Archived Press and Public Information.